

# The functioning of the State Audit in the Republic of North Macedonia and the Republic of Montenegro

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## Abstract

The growing awareness of the functioning of the state audit in recent years has been increasing, indicating its importance. In the 21st century, it is precisely this type of audit that is examining government spending in terms of legal and earmarked spending and evaluating the quality of public sector programs. An auditor examines the information contained in the financial statements in terms of the truthfulness and objectivity of the financial position and results of operations and compliance with auditing standards and the generally accepted accounting framework. For us, as citizens, this audit is important because we all want to know where the money goes that we as taxpayers pay the state and whether they are available in an economical, efficient and effective way. The answers to these questions are contained in the state audit reports.

A state audit is performed by Supreme Audit Institutions. In the Republic of North Macedonia, the Supreme Audit Institution is the State Audit Office, while in the Republic of Montenegro, the Supreme Audit Institution is the State Audit Institution. The Republic of North Macedonia, as well as the Republic of Montenegro, are candidate countries for membership of the European Union, located on the Balkan Peninsula, both of them are in transition and they are approximately similar in economic terms, which is an indication of the similarities between them. The functioning of the state audit in these countries has some similarities and some differences, but the purpose of the state audit in all Supreme Audit Institutions as well as in the State Audit Office of the Republic of North Macedonia and the State Audit Institution in the Republic of Montenegro is the same.

Keywords: auditing standards, audit reports, public (state) property, public sector, financial statements

## 1. Introduction

The purpose of the public sector (state audit) is to detect on time and establish the existence of illegal procedures in the spending of public funds, deviations from accepted standards and failure to comply with the law, effectiveness, cost-effectiveness, and efficiency in financial management. Corrective action can be taken to prevent major violations. With its overall activity, it undoubtedly contributes to effective parliamentary control over the executive government, which in turn ensures the promotion of the work of the executive government, their greater responsibility in spending public funds and managing public property.

The state audit institutions in the Republic of North Macedonia and the Republic of Montenegro, as the highest state audit bodies for public spending, are accountable to the Parliament of Republic of North Macedonia and Republic of Montenegro for their work. As an external auditors of the public sectors, they are one of the key institutions in the system of financial responsibility. Their main function is to provide independent reporting on the programs, functions, and activities of the users of public funds, to provide reliable assurance and evaluation of the functioning of the public sector to exercise responsible authority. All public funds and their users are subject to audit following the regulations on-budget system, financial statements, financial transactions, analyzes and other records and information of audits.

The subject of the audit is the proper functioning of the audited entities by the Law, as well as the expediency of the management of public funds, the system of financial management and control, the system of internal control and internal audit. As the State institutions in the Republic of North Macedonia and Republic of Montenegro are the highest state audit bodies of public funds, they play an important role in strengthening the responsibility of public office holders through auditing, reporting, making recommendations and following recommendations. They undoubtedly contribute to parliamentary control and good governance in the public sector, ensuring that public funds are spent in an economical, efficient and effective manner.

Public Sector Audit primarily focuses on the audit of reports submitted by the executive to the Parliament on public spending and public property management, the legality of their operations, cost-effectiveness, efficiency and effectiveness of fundraising and spending. State audit within these institutions contributes to improving the performance of public institutions and public property, thus pointing to the major importance of state audit.

The Supreme Audit Institutions (SAI) also aims to provide accurate, independent and objective information, opinions and conclusions based on sufficient and appropriate audit evidence in the audit reports available to users. The SAI is responsible for encouraging change, expanding knowledge and making recommendations to improving the performance of these institutions.

## **2. Historical development**

### In the Republic of North Macedonia

- From 1991-1998 the state audit was conducted by the Directorate for economic and financial audit in the Social Accounting Office which later in 1994 was renamed into Payment Operations Office.
- In 1997 was adopted the first State Audit Law
- In 1999, the State Audit Office started operating with nine employees from the Directorate for economic and financial audit

- In 1998/99 the first audits were conducted by the State Audit Office
- In 2000, the first Annual Audit Report of the State Audit Office operations was submitted to the Parliament of the Republic of North Macedonia
- In 2010 was adopted the new Law on State Audit

#### In the Republic of Montenegro

- In 21.04.2004 was adopted the Law on State Audit and State Audit Institution was established
- In July 2004 the Parliament of the Republic of Montenegro appoints the President and members of the Senate of the State Audit Institution, and that created all the formal and legal conditions for the functioning of the SAI.
- In July 2004 six-state auditors are elected through a public competition by the Board of Economy, Finance and Environmental protection of the Parliament of the Republic of Montenegro

From the historical development of these institutions we can see that the Republic of North Macedonia has previously adopted the State Audit Law in 1997 and the State Audit Office which has been in operation since 1999, unlike the Republic of Montenegro which later adopted the Law on State Audit and State Audit Institutions was established in 2004.

### **3. Organizational structure**

#### In the Republic of North Macedonia

In 2015, the Rulebook on the systematization of Jobs in the State Audit Office was adopted, which determines the total number of employees, the schedule, the code, the title and the job description by organizational units and the special conditions required to perform the tasks of certain job positions... This Rulebook has subsequently been amended several times.

The staff is organized into three sectors

1. Sector for Audit Promotion and Monitoring of International Practice for implementation of International Standards
2. Information systems audit sector
3. The sector of Administrative Support (there are two such sectors within the SAO).

The SAO also has two human resources and internal audit sectors. [1]

The SAO is headed by the Chief State Auditor, who also has a deputy.

#### In the Republic of Montenegro

The State Audit Institution is organized into five sectors within which the departments are organized.

A special service is organized for the administrative-professional affairs, headed by a secretary. An Internal Audit Unit operates within the SAI.

The State Audit Institution also consists of the Senate and Auditing Boards, which are decision-making bodies. The Senate has five members and a member of the Senate is also the leader of one sector, while the Auditing Boards is composed of two members of the Senate, one of which is the head of the sector conducting the audit.

The State Audit Institution and the Senate are headed by the President of the Senate, who, if absent, has a deputy (the oldest member of the Senate).

From the organizational structure of the state audit in the two countries, we see a big difference. In the Republic of Montenegro, the organizational structure is far more complex than the organizational structure in the Republic of North Macedonia. In the Republic of North Macedonia, there are three sectors, two human resources units, and internal audit departments, while in the Republic of Montenegro there are five sectors, an administrative unit, internal audit unit, a Senate and the Auditing Board.

#### **4. Management, members and state auditors in state Institutions**

Head of the State Audit Office is the Chief State Auditor who is elected and dismissed by the Parliament of the Republic of North Macedonia. Also in the Republic of Montenegro, the President of the State Audit Institution is appointed and dismissed by the Parliament, with the exception that the President is elected from among the members of the Senate. The mandate of the Chief State Auditor of the State Audit Office in the Republic of North Macedonia and the President of the State Audit Institution in the Republic of Montenegro is for a time period of 9 years, with no right to be re-elected. Managers represent the state institutions.

In the Republic of North Macedonia, the Chief State Auditor adopts the SAO's Annual work program, the SAO's Annual work Report, guides how to perform the activity, the criteria for scope, and the subjects to be audited proposes the State Budget SAO. The Chief State Auditor has many competencies related to obtaining the title of State Certified Auditor such as the Program, the costs, the manner of taking the exam, as well as the form and content of the certificate and identification card prescribed by the Chief State Auditor.

According to the Law on State Audit, the Chief State Auditor adopts:

- Bylaws for its implementation and publishes them in the Official Gazette of the Republic of North Macedonia,
- Acts for systematization of jobs,
- Acts of organization of work; and
- Acts for initiating disciplinary proceedings for employees who do not have the status of administrative officers in the SAO.

The Chief State Auditor is responsible for informing the public about the work performed and other activities following the law. The responsibilities of the Chief State Auditor in the State Audit Office in the Republic of North Macedonia shall be vested in:

- The annual program,
- Annual report on the work of the SAO,
- Guidelines for performing the activity,
- The proposal for the State Budget,
- The program for taking the exam for state auditor,

- Acts in the organization and systematization of jobs,
- By-laws.

The State Audit Institution in the Republic of Montenegro belongs to the Senate headed by the President of the Senate. The Senate also has the authority to adopt a development strategy for the Institution, appoints and dismisses heads of departments on a proposal from the Senate Heads, schedules members of the Senate heads of sectors, adopts the annual inventory of funds and decides on the need for hiring of experts. We conclude that in the Republic of North Macedonia decisions on the State Audit Office belong to only one person, and that is the Chief State Auditor, while in the Republic of Montenegro the decisions belong to the Senate by a majority of the members. Decisions that belong to more members have the advantage of exchanging experience, knowledge and thus making better decisions.

The Chief State Auditor and his / her deputy in the Republic of North Macedonia should meet certain conditions as follows:

- to be citizens of the Republic of North Macedonia,
- have an appropriate university education (economics or law),
- relevant experience of at least seven years in economics or law,
- internationally recognized certificate of proficiency in English which should not be older than five years,
- have no prohibition to perform the activity or pronounced misdemeanor sanction,
- not perform any other public function,
- not be members of an administrative, supervisory or any other body of another legal entity,
- not to be members of political parties and to have passed an integrity test and a psychological test. [2]

While in the Republic of Montenegro to become a member of the Senate it is necessary to meet certain conditions, first of all, a Montenegrin citizen, a graduate economist or a lawyer and:

- has passed the bar exam or the state auditor exam and a minimum of 10 years of working experience in practice or has at least 10 years of working experience in conducting responsible legal works in civil service
- has passed the state auditor exam and has at least 10 years of working experience or at least 10 years of working experience in conducting responsible works in public finance. [3]

At least two members of the Senate shall be lawyers. The members of the Senate are elected by the President of the Senate who represents both the Senate and the State Institution.

The State Audit Institution in the Republic of Montenegro, as mentioned above, also operates the Auditing Board that monitors a particular audit and is responsible for its outcome. The Board consists of two members of the Senate, one of whom is the head of the audit sector. If the Auditing Board does not make a decision then the Senate does.

A special department for administrative and professional affairs is organized by a secretary appointed and dismissed by the Senate. The secretary is selected by a public notice. The term of office is five years with the right to be re-elected. The secretary may have been a person who is a law graduate or a graduate economist, has passed a professional exam in public administration and at least five years of work experience. The Secretary is accountable for his/her work to the Senate.

## State Auditors in the Republic of North Macedonia

For acquiring Authorized State Auditor title, the candidate shall meet the following requirements:

- Have citizenship of the Republic of Macedonia;
- Have university degree in the field of economics, law, information technology or other appropriate education for conducting an audit
- Have passed the exam for authorized state auditor or have a certificate for authorized state auditor, and
- Give a statement that shall adhere to the INTOSAI Code of Ethics. [4]

Authorized state auditors may not perform their functions if the audited entity is shareholders, founders, associates, or if they or their spouses, third-degree kin are legal representatives of the audited entity and may not audit the entity if they have prepared financial statements and annual accounts in the same entity for at least five years,

## State Auditors in the Republic of Montenegro

The state auditors who carry out the state audit are selected by public announcement. To become a state auditor, certain conditions must be met:

- have a university degree, at least 5 years of professional experience and passed the state auditor exam. State auditors may not be members of the Board of Directors, Supervisory Board of a company or other legal entity. State auditors or members of their families may not participate in the operation of decision-making of business as provided for by the State Audit Law if they have participated in the decision-making process. The Board is responsible for dismissing them. [5]

## **5. Annual Program, financing and audit reports of State Audit Institutions**

### Annual program

The State Audit Office of Republic of North Macedonia independently decides on the auditees, subject of an audit, scope, and type of audit and prepares annual audit program. According to the legal regulations, the SAO is obliged to audit the annual budget of the Republic of North Macedonia and the budget of the SAO once a year, and for the other auditees, it is performed within the deadlines set by the SAO annual program. While in the Republic of Montenegro, the annual budget of the Republic of Montenegro is compulsorily audited, and for other entities, it is also subject to deadlines set by the annual program.

### Financing

The State Audit Office in the Republic of North Macedonia is financed by the Republic of North Macedonia Budget. First, the Chief State Auditor prepares the Budget Proposal of the State Audit Office and submits it to the Parliament of the Republic of North Macedonia where the Assembly decides on the State Audit Office's budget. In the Republic of Montenegro, funding is also provided by the Republic of Montenegro budget, with the only difference being that the Senate prepares the State Audit Institution's Budget Proposal.

### Report on conducted audits

As a rule, reports on audits are submitted to the auditees, to the Parliament and are published on the web site of the State Institutions to be accessible to the general public, both in the Republic of North Macedonia and in the Republic of Montenegro

The State Audit Office in the Republic of North Macedonia till now has submitted 19 Annual Reports to the Parliament of the Republic of North Macedonia on the State Audit Office's audits and activities, while the State Audit Institution in the Republic of Montenegro, unlike the SAO in the Republic of North Macedonia, is starting to function later has submitted 14 Annual Reports on its work and activities to the Parliament of the Republic of Montenegro.

## **6. Conclusion**

The State Audit Office of the Republic of North Macedonia, as well as the State Audit Institution of the Republic of Montenegro, are members of the International Organization of Supreme Audit Institutions (INTOSAI) and they are well on their way to developing into a modern and qualified institution. Supreme Audit Institutions in the Republic of North Macedonia and the Republic of Montenegro implement ISSAI standards, operate following the principles of the Lima Declaration, respect the Code of Professional Ethics and they are characterized by professionalism and credibility and enable effective audits.

Regarding the functioning of the State Audit in the Republic of North Macedonia and the Republic of Montenegro, as stated above, we can conclude that the aim is the same as in all Supreme Audit Institutions, the audited entities are the same, the differences between them being in organizational structure and governance of state audit institutions

The Supreme Audit Institution's (SAI) work contributes to improving the performance of public institutions through audits. This is because auditors have access to all the information of the institutions and they can closely observe their work and prevent misuse of public officials. SAI's are also of great importance in the fight against corruption and fraud detection in public institutions. The SAIs are in close co-operation with the institutions responsible for dealing with corruption cases such as the Ministries of Interior, the State Commission for the Prevention of Corruption and the Public Prosecutor's Office.

The Supreme Audit Institutions in Republic of North Macedonia and Republic of Montenegro are financed from the Budget of the Republic and submits audit reports to Parliament, the Government of the Republic and other competent institutions indicating its co-operation with the institutions from which it is funded. That's why it is very important to emphasize the need for independence and objectivity in operation.

Proper, economical and efficient use of public funds is a prerequisite for the proper management of public finances, and one of the most important mechanisms for doing public sector auditing. In order for the state audit to be effective in supporting parliamentary control, it must perform the tasks professionally, independently, impartially and objectively in accordance with the auditing regulations and generally accepted standards and principles.

The most important thing for the state audit is to make sure that the resources entrusted to the state are used in an economical, efficient and effective way, which means making them available in the best possible way and also assisting the government and public institutions with advice the problems they face.

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